

## Can increased public expenditure create jobs?

The diagram below shows how the building of new hospitals by a government could help to increase economic activity. In your own words explain what is happening in the diagram and how an expansionary fiscal policy can boost aggregate demand, output and jobs in

an economy. How might the impact of the policy on the economy and your explanation change if the increase in public expenditure is paid for by **a** raising taxes or **b** raising interest rates to encourage people and firms to lend money to the government?

